

Budget Message

December 1, 2008

City of Missoula Residents:

This document is the Final Operating and Capital Budget for the City of Missoula, Montana for the fiscal year ending June 30, 2009 (FY 09). A brief summary of the Final Budget follows.

Overview of Budgeted Resources

The following table depicts the projected beginning balances, estimated revenues, final budgeted expenditures, and projected ending balances for the budget year. All city funds are included in the forgoing budget. The table reflects estimated revenues of \$90.1 million, budgeted expenditures of \$97.3 million, resulting in a decrease in the ending balances of \$6.0 million. An explanation of the significant changes in fund and cash balances (those greater than 10%) is provided on the following page.

Projected Changes in Fund Balances or Cash Balances Final Budget - July 1, 2008 through June 30, 2009 (FY 09)

	Governmental Fund Types				Proprietary Fund Types	Fiduciary Fund Types	Component Units	Total All Funds
	General	Special Revenue	Debt Service	Capital Project	Enterprise & Internal Service	Trust & Agency		
Projected Beginning								
Fund Balance/Cash	\$ 2,039,921	\$ 2,687,117	\$ 2,192,474	\$ 1,823,362	\$ 4,915,762	\$ -	\$ 7,333,759	\$ 20,992,395
Estimated Revenues	41,175,015	15,459,888	4,523,270	2,650,910	19,515,201	-	6,813,765	\$ 90,138,049
Approved Budget	(42,296,980)	(16,967,134)	(4,131,366)	(4,474,272)	(19,270,515)	-	(10,203,419)	\$ (97,343,686)
Anticipated Savings	<u>1,205,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,205,463</u>
Projected Change in								
Fund Balance/Cash	<u>83,498</u>	<u>(1,507,246)</u>	<u>391,904</u>	<u>(1,823,362)</u>	<u>244,686</u>	<u>-</u>	<u>(3,389,654)</u>	<u>\$ (6,000,174)</u>
Projected Ending								
Fund Balance/Cash	\$ 2,123,419	\$ 1,179,871	\$ 2,584,378	\$ -	\$ 5,160,448	\$ -	\$ 3,944,105	\$ 14,992,221

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Listed below are explanations of the significant changes in fund balance/cash, for each of the major fund groups.

General Fund

- The General Fund year end balance for FY 2008 decreased to \$1.2 million from \$2.1 million at the end of FY 2007. The City Council budgeted the fund balance to increase by \$83,500 for FY 2009, which would place the FY 2009 year end fund balance at approximately \$1.3 million. The decrease in fund balance in FY 08 was due to a decline in expected expenditure savings and slight increase in tax delinquencies. Please note that the city had a 15 year history of always having between 3% - 5% expenditure savings. The FY 08 expenditure savings were less than 1%. The city has addressed this issue by requiring a mandatory 3.7% holdback on expenditures for FY 09 and is preparing to eliminate any anticipation of expenditure savings in the FY 2010 budget. The city is prepared to rebuild its fund balance over the next two years to the level it had at the end of FY 2007 (\$2.1 Million).

Special Revenue Funds

- Special Revenue Fund balances are usually fully appropriated to be spent, even though certain funds are targeted to have substantial year end fund balances to handle the ongoing operating expense of their programs without developing a negative fund balance (i.e. Street Lighting Assessments Fund, Cable Franchise Fee Fund). The Building Inspection Permits Fund did generate a positive year end fund balance for FY 2008 (the first time in three years), as the permit fees were increased at mid-year FY 2008 to help address this problem. Most of the other special revenue funds are slated to fully spend the beginning fund balance because the balance exists because projects were not completed during the preceding fiscal year.

Debt Service Funds

- The Debt Service year end fund balance is budgeted to be spent for all general obligation debt but not for special improvement district (SID) debt service funds. The City is required to maintain a reserve equal to 5% of all outstanding SID bonds. In addition, the SID debt service funds are expected to build in size until bonds are called (redeemed) early due to prepayments of the underlying assessments supporting these debt issues.

Capital Project Funds

- The Capital Projects year end fund balance for FY 2008 was positive. This will be eliminated during the course of FY 2009 for the most part, as the projects are completed and the available funds are spent to build the infrastructure that is budgeted to be completed.

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Enterprise/Internal Service Funds

- The Enterprise Fund balances are slated to increase by nearly \$0.25 million, which will help to support some large construction projects in the Wastewater Fund in the future. The City's only Internal Service Fund, the City Health Insurance plan, is budgeted to maintain a three month operating reserve. The plan has performed well financially the past four years with the result that its current fund balance is in excess of the targeted three month reserve.

Trust and Agency Funds

- The City did not prepare any budgets for the Trust & Agency fund type.

Component Units

The City of Missoula has three component units, the Missoula Parking Commission (MPC), the Missoula Redevelopment Agency (MRA) and the Business Improvement District (BID). The parking commission has an operating budget of \$1.375 million, which it usually spends each year. It maintains a reserve in excess of \$3.0 million, part of which is required for coverage pertaining to an outstanding bond issue and the rest of which will be used sometime in the near future to construct additional parking in the downtown business district.

MRA spent in excess of \$5.0 million as the first downtown redevelopment district ended two years ago. The complete fund balance for that district was spent on construction projects assisting the economic development and infrastructure of the downtown business district. MRA is moving forward with substantially smaller budgets until the other two newer districts can be developed in a manner similar to the outstanding growth that occurred in the original district. The first phase of redevelopment of the downtown mill site along the Clark Fork River was initiated with the issuance of \$3.6 million of tax increment bonds in Urban Renewal District II. This project moved into the second phase of development in FY 08. The groundwork was put in place to accomplish the move of Safeway from its present location to the old city maintenance shop site, freeing up the current location for the expansion of the campus of St. Patrick Hospital. This will be accomplished in the fall of 2008.

The Downtown Business Improvement District (BID) was created through the efforts of the Missoula Downtown Association to address the challenges created by the termination of the Downtown Urban Renewal District (URD I) on June 30, 2005. Implementation began in 2001 with committee development, community education, local media campaigns, meetings with property and business owners, creation of a comprehensive database of property owners, and the required petition process. The process of verifying the petition was finalized at the end of 2004 and the BID was approved by the City Council in April 2005. The BID will serve as an advocate for property owners in the district and address areas such as safety, cleanliness, appearance, marketing, business retention and recruitment, public and private investment in buildings and infrastructure.

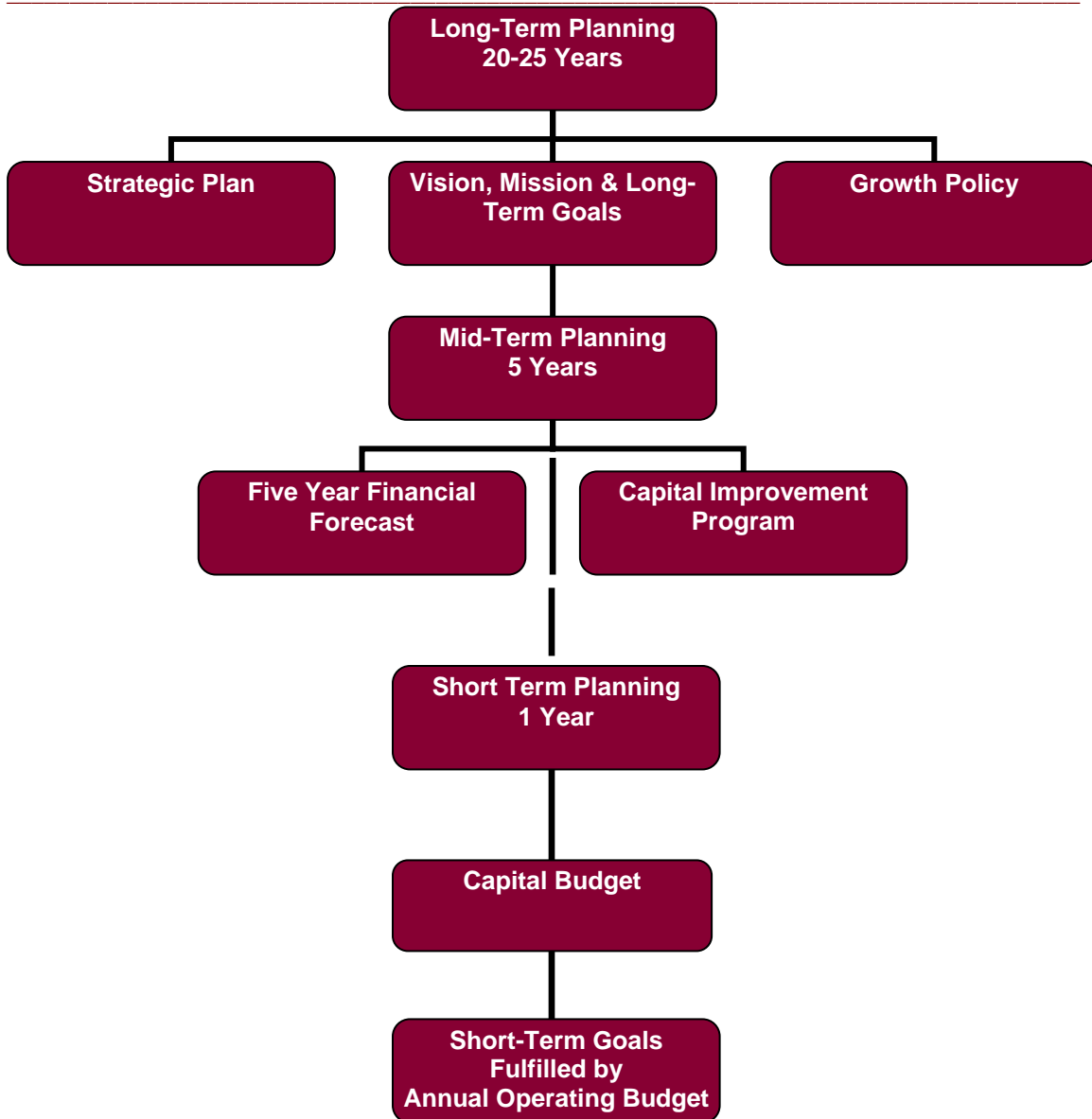
Planning Processes

The City of Missoula conducts various planning processes (long-term, mid-term and short-term), to help guide the government and to insure that decisions are made in the context of the organization as a whole and with a long-term perspective. Diligent efforts are made to insure each of these component planning processes are in concert with one another. This so called “Linkage” is paramount to insure short-term decisions are consistent with the overriding values embodied in the mid-term and long-term planning processes adopted by the City Council. This required linkage dictates that the Operating and Capital Budget be developed within the context of, and consistent with, the City’s long-term and mid-term plans.



Each element of the City’s planning process has a different purpose and timeframe. The Strategic Plan, Vision, Mission, Long-term Goals and Growth Policy are the most far-reaching in nature—20 to 25 years. The Capital Improvement Program and the Five-Year Financial Forecast are mid-term in nature—5 years. The Annual Budget and the Capital Budget are short-term—covering a 1 year timeframe. The most important requisite is that they are coordinated efforts.

Shown below is a hierarchy of the City’s layered planning processes, all which support one another and are designed with a common goal. The chart depicts how the Annual Operating Budget, and the Capital Budget fit within the City’s planning process hierarchy.



Strategic Plan

Strategic planning suggests ways (strategies) to identify and to move toward desired future states. It consists of the process of developing and implementing plans to reach goals and objectives. Within government, strategic planning provides guidance for organizational management similar to that for business, but also provides guidance for the evolution or modification of public policy and laws. Areas of such public policy include: funding of infrastructure and rate-setting, and functional plans such as the City's Comprehensive Plan for land use, the City of Missoula transportation plan, the City of Missoula wastewater facility plan master plan, and City of Missoula master fire plan.



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The fiscal year 2009 budget continues our Strategic Planning initiatives started in FY 1992. This plan is being significantly updated in FY 2009. The Strategic Plan is an ongoing dynamic process that will give residents, taxpayers and interested persons a greater understanding of city government. The strategic plan focuses on performance. It provides for measurable goals and objectives the City intends to achieve. Department employees will be held accountable for the implementation and success of the plan.

As part of the Strategic Planning Process, the city created a set of strategies to help guide the organization. These range from philosophical strategies (Mission Statement) down to concrete achievable goals for the coming year. Listed below are the results of this planning process.

City of Missoula Strategic Direction

Mission Statement

The mission of the City of Missoula is to facilitate the health, safety and well being of the Missoula community.

Vision Statement

We are a professional, proactive and responsive local government, working cooperatively in mutual respect and trust with dedicated, well-informed and responsive citizens, to seek the highest quality of life for our community.

City of Missoula Goals



The city created a set of short-term and long term goals. The short-term goals are those that guide the development of the budget for the coming year. Long-term goals are more far-reaching in nature and do not change from year to year.

Listed below are the city's goals that help guide the development of this budget.

Goal 1
Organizational Management

Sustain and enhance our ability to be an efficient, effective, accountable, responsive and respected City organization.

Guiding Principles

- We believe in mutual respect and responsiveness between government and citizens.
- We believe that providing basic services is important to our community.
- We believe that planning, training, collaboration, technology and review increase efficiency and effectiveness.
- We believe in developing and exercising cooperative partnerships and relationships through communication.
- We believe that benchmarking by matching performance to best practices of our peer cities contributes to accountability and excellence in leadership, management and functionality.
- We believe in sound fiscal management and in living within our resources and budgets.

Strategies

- We will work to continue to improve our relationship with County government.
- We will support employee and project performance using benchmarks.
- We will match performance standards to peer cities' best practices in technology (assessment and planning processes), basic service, health, and emergency preparedness.
- We will learn about our current system and its uses, while retaining flexibility in our organizational structure.
- We will explore ways to share resources among departments including elimination of duplication; examination of workloads; providing for the physical well-being of employees and retention of experienced employees; helping employees connect their jobs to City goals and strategies; and facilitating training, work plans, accountability and employee ownership.
- We are committed to increasing organization responsiveness internally and externally, including emergency preparedness.
- We will continue good fiscal management through long range and strategic planning, educating ourselves on finances, emphasizing living within our resources, and diversifying our revenue base.
- We will operate within our resources and diversify our revenue base.

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<p>Goal 2 Community Livability</p> <p>As a community, we promote a safe, healthy, economically and environmentally sustainable Missoula.</p>
<p>Guiding Principles</p>
<ul style="list-style-type: none">· We believe that growth and development must be environmentally and economically sustainable. We take responsibility for anticipating, planning for, and actively guiding change.· We believe that neighborhoods play an important role in assuring a livable, sustainable and affordable community.· We believe that a well-planned and well-organized infrastructure is essential to building, enhancing, and preserving community and the environment.· We believe that access to public health, safety, and services and recreation opportunities are essential to a livable, sustainable community.· We believe a good relationship with citizens leads to support of government and the opportunity to accomplish livability objectives.
<p>Strategies</p>
<ul style="list-style-type: none">· We will use Missoula Measures, the Consolidated Plan, and other best practice evaluation tools to help develop objectives and establish benchmarks.· We will plan in a way that assures that strategies are developed, objectives written, and activities implemented to address:<ul style="list-style-type: none">· Growth management· Neighborhoods· Affordable housing· Infrastructure· Transportation· Environment (clean air, water; open space)· Economic development· Health (social, physical, mental)· Safety and accessibility· Recreational opportunities· Diversity of population and demographics to include all ages, cultures and socio-economic groups

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<p>Goal 3 Community Involvement</p> <p><i>We encourage citizen involvement and ownership in our community.</i></p>
<p>Guiding Principles</p>
<ul style="list-style-type: none"> · We believe the interaction of citizens and government extends and enhances community resources and strengthens public/private relationships. · We believe that government effectiveness increases when citizens are informed and interaction occurs. · We believe that encouraging neighborhood involvement promotes a healthy community. · We believe that listening to and understanding the concerns of citizens fosters mutual trust. · We believe that effective public information and education leads citizens to provide effective and constructive feedback.
<p>Strategies</p>
<ul style="list-style-type: none"> · We will explore and use additional means of providing analysis of how the City is doing and information and data to citizens including all forms of media. · We will continue to seek information and participation from citizens in a timely and responsive manner. · We will determine ways to help citizens understand how their input influenced policies and decisions and how they can measure their contributions to the discussion. · We will explore new strategies to identify and connect with currently non-involved populations including taking meetings to the public, speaking at already scheduled events at schools, and finding ways to facilitate childcare availability for meetings. · We will define and connect with populations who interact with the City in different ways including those who are not involved at all, and we will analyze and implement the best ways to reach them. · We will increase the level of citizen involvement in long-term and strategic discussions in addition to specific projects. · We will review policies and ordinances to make them more understandable for the average reader.

Departments have developed and are continuing to develop performance measures to identify and track quantitative and qualitative measures of their service delivery performance. Performance budgets emphasize the accomplishment of program objectives. Performance budgeting involves a shift away from inputs (what is going to be purchased), to outcomes (what is going to be accomplished).



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Five-Year Financial Plan

Each year the City of Missoula evaluates its current financial condition within the context of existing programs, assesses future financial capacity, and integrates City Council goals, objectives, and financial policy into its decision-making process. Analysis of the City's financial and economic trends is an integral part of this process.

Finance Department staff perform financial trend analysis each year in conjunction with the annual mid-year budget analysis. The Five-Year Financial Plan utilizes budgetary and financial information to create a series of local government indicators to monitor changes in the City's financial condition. These indicators, when considered as a whole, can help interested stakeholders gain a better understanding of the City's overall financial condition. This type of analysis of key financial trends and other community factors is similar to the analysis that credit rating agencies undertake to determine the City of Missoula's bond rating.



Using this trend analysis and the framework of the financial policies adopted by City Council, management is able to strategically plan and budget, provide solutions to negative trends, and ultimately preserve the financial health of the City of Missoula. It is a good 'report card' of the City's current financial condition and reference point as staff begins work on the next year's budget.

Most importantly, the financial trend analysis assists the City Council and the city administration in focusing on the "Big Picture" of the city's financial operations.

Capital Improvement Plan

The city prepares a 5-year Capital Improvement Program (CIP) which is summarized within the Annual Operating Budget. The CIP is a multi-year capital improvement plan that forecasts, but does not obligate, future spending for all anticipated capital projects. The CIP is developed and updated annually. The proposed five-year CIP uses conservative financial forecasts and reflects only those projects with the highest priority and most realistic expectation for completion during the next five years. This approach avoids raising expectations for projects that are not well defined or that the operating budget will not support.

As in recent years, the City continues to face numerous capital funding requests. At the same time, the city has finite resources to fund the operating costs for many of the proposed capital projects. The proposed five-year CIP attempts to continue, and even expedite, priority projects while ensuring long-term sustainability for operating impacts.



The Annual Budget Process includes a re-evaluation of the capital projects included in the CIP for the coming year as well as the anticipated funding sources for the projects. If approved in the Annual Budget Process, the capital items appear in the Annual Operating Budget, which constitutes the formal spending authority. The capital items included in the Annual Operating Budget, represent the "Capital Budget".

A summary of the significant capital projects included in the FY 09 Operating Budget is included in the Capital Projects Section of this budget.

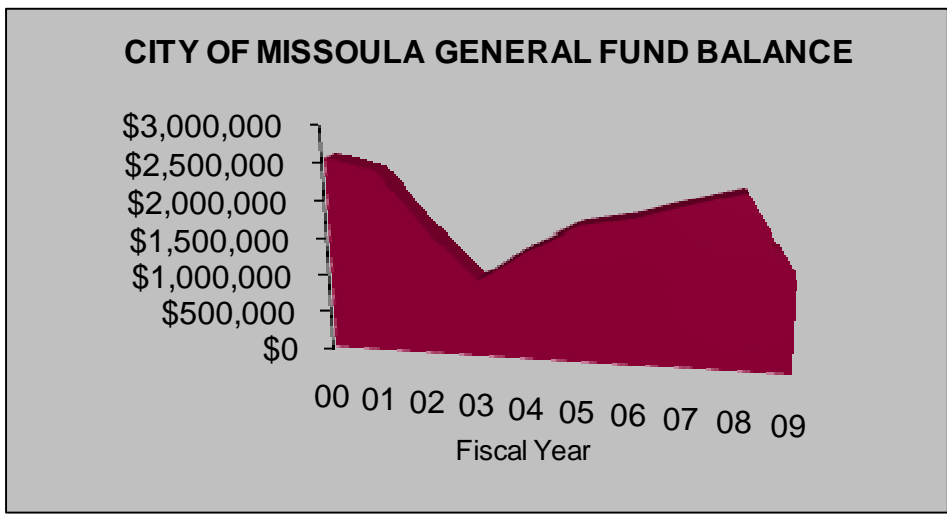
STAFFING CHANGES

The final budget includes a net overall increase of 2.15 full-time equivalent employees (FTE). The chart below shows the change in FTE for the budget year for each department. Also included in the appendix is a chart that shows the city’s FTE over the last ten years.

Staffing Changes (FTE)	
DEPARTMENT/DIVISION	Net Increase (Decrease)
Office Planning & Grants: .25 FTE GIS technician	0.25
Attorney: Add 0.5 FTE Clerk	0.50
Public Works / Engineering: 0.33 FTE Traffic Services Seasonal Tech.	0.33
Fire: 4 FTE Firefighters	4.00
Aquatics:	(2.59)
Building Inspection:	(0.34)
TOTAL CHANGE	2.15

BUDGETARY TRENDS

Shown below are a series of key financial indicators and budgetary trends that affect the ability of the city to sustain current service levels, while maintaining financial stability.

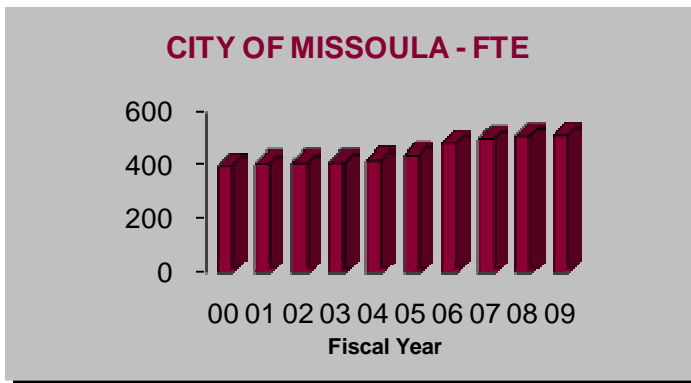


Fund balance measures the net financial resources available to finance expenditures of future periods. Rating agencies examine fund balance when considering the

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credit quality of the City. The General Fund balance represents the best indicator of the city’s overall financial health. Shown by the graph on the left is the city’s actual General Fund balance over the course of the last several years. The reduction in General Fund balance from fiscal year 1999 to 2003 is attributable to several factors including the financial losses associated with a Fire arbitration settlement and a business licensing lawsuit as well as the transfer of nearly \$1,000,000 to stabilize the City’s Health Plan and set up the City’s Building Inspection Division as a separate fund. Since fiscal year 2003, the city has made a conscious effort to rebuild the General Fund balance. At the end of FY 07, the total fund balance of the General Fund was \$2.12 million compared to \$1.0 million at year end in FY 2003. This ending fund balance represented nearly six percent of total General Fund expenditures. The current year budget (FY 2009) anticipated an ending General Fund balance of \$2.1 million, but when the fiscal year was closed out in September of 2008, the year end balance had decreased to \$1.2 million from \$2.1 million at the end of FY 2007. The City Council budgeted the fund balance to increase by \$83,500 for FY 2009, which would place the FY 2009 year end fund balance at approximately \$1.3 million. The decrease in fund balance in FY 08 was due to a decline in expected expenditure savings and slight increase in tax delinquencies. Please note that the city had a 15 year history of always having between 3% - 5% expenditure savings. The FY 08 expenditure savings were less than 1%. The city has addressed this issue by requiring a mandatory 3.7% holdback on expenditures for FY 09 and is preparing to eliminate any anticipation of expenditure savings in the FY 2010 budget. The city is prepared to rebuild its fund balance over the next two years to the level it had at the end of FY 2007 (\$2.1 Million).

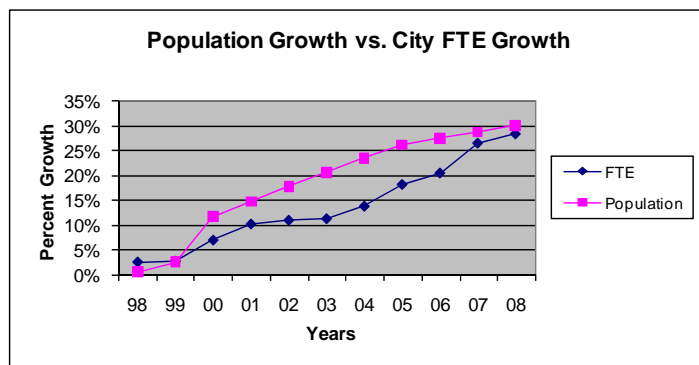
The City’s 2009 budget continues to be structurally balanced and the city will maintain a safe General Fund reserve going into fiscal year 2010. The City’s goal is to target a fund balance equal to seven percent of the General Fund expenditures, which would equal approximately \$2.8 million based on the level of expenditures for FY 2009. The goal is to have the fund balance rebuilt to \$2.1 million in two years and to \$3.0 million in 4 years.

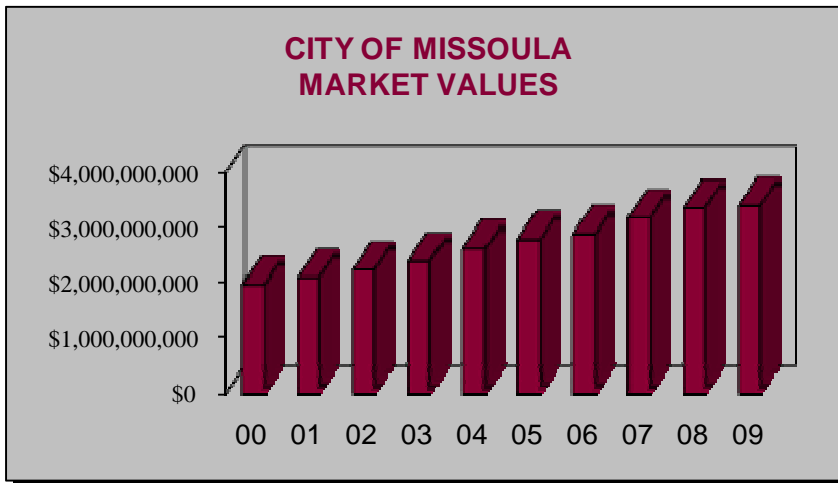


Full-time equivalent employees (FTE) is a key indicator mirroring the growth of the City of Missoula. As shown by the graph on the left, total FTE’s grew from 398.29 in fiscal year 2000 to 511.08 in 2009, for a 25 percent increase over this period, while the City’s population is estimated to have increased 28% during this same period of time. Please note that 31 of these new FTE’s in FY 06-08 are for staffing of the new aquatics facilities recently opened up to

the public and these FTE’s are predominantly paid from the revenues generated by these facilities. If these FTE were backed out of this calculation, (as they are predominantly self supporting), the actual growth of new FTE’s would be 21%.

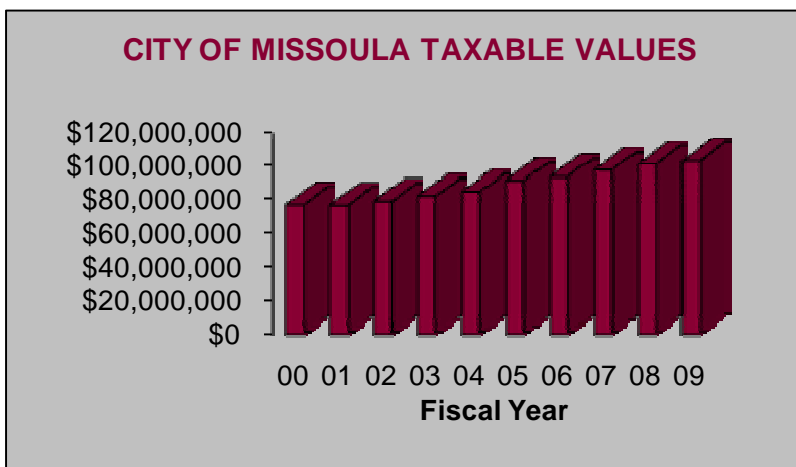
One of the principal challenges continually facing the city is the on-going financial obligation of new employees necessary to meet the service demand that accompanies the rapid growth of the city. All indications are that the growth Missoula has experienced in the past will continue for the foreseeable future.





As a general rule, all real and personal property in the State of Montana is subject to taxation by the State and its counties, municipalities and other political subdivisions. This rule is subject to exceptions in the case of specified classes of exempt property. Property is classified according to its use and character, and the different classes of property are taxed at different

percentages of their market valuation. Property valuations are based on comprehensive appraisals of all taxable property performed by the Department of Revenue each year. The Department of Revenue certifies market and taxable values to each city on or before the 1st Monday in August. The trend of the City of Missoula’s market value is shown by the graph on the left. As reflected by the graph, the city’s market value has increased from \$1.985 billion in fiscal year 2000 to \$3.412 billion in fiscal year 2009, for a 72% increase over this period. The market value of property in the City reflects the rapid growth the City is experiencing. The graph of taxable values that follows reflects the city’s ability to raise general tax revenue necessary to support the growing demand for government services.



The taxable value for property is determined by applying a statutorily established percentage ratio to the market value of the property, according to its property classification. The applicable ratio for most commercial and residential real properties is currently 3.08%. Shown on the left is a history of the city’s actual taxable value since 2000. The increase in taxable values does not coincide

with the increase in market values because of adjustments to the percentage ratio by the Montana Legislature and by changes in tax policy implemented through property tax amendments. The adjustments by the Legislature were designed to prevent local taxes from increasing at the same rate as property values. The taxable values (as opposed to market values) more accurately reflect the ability of the city to increase tax revenues. As you can see from the graph, the City’s taxable value increased from \$77.024 million to \$103.008 million from 2000 to 2009, an increase of only 34%, which is less than half the increase in the market value of the same property.

ECONOMIC FACTORS

The Bureau of Business and Economic Research (BBER) is the research and public service branch of the University of Montana's School of Business Administration. The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting. Excerpts from the Bureau's forecasts contained in the Spring 2008 issue of the Montana Business Quarterly relating to Missoula and Missoula County are restated below.

6 outlook

The Montana Economy Zooms Along

by Paul E. Polyzin

Wheat selling at greater than \$8/bushel turbocharged the crops sector of Montana agriculture during late 2007. Montana's economic base is now firing on almost all cylinders, and the state is completing a record-breaking streak of four straight years of greater than 4 percent real growth. Looking to the future, annual growth of 4 percent is likely to continue into 2008, and maybe even beyond.

The state's strong economic performance is attributable to buoyant conditions in most basic industries:

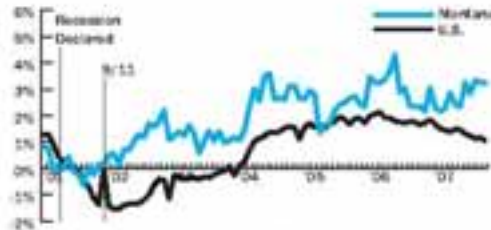
- The metal (especially copper) and energy-related sectors of mining have been mushrooming because of worldwide demand growth associated with China and other developing countries.
- Moderate (but persistent) 2 percent overall increases in nonresident travel, despite gas prices rise.

- Robust commercial and residential construction activity (especially in Gallatin and Flathead counties).
- Although it occurred earlier in the decade, right after Sept. 11, the federal government expanded as a result of homeland security (military and border-related) activity.
- The wood products industry is the one exception. There have been several mill closings as a result of a long-term decline in timber availability and numerous market driven curtailments in 2006-07.
- The other manufacturing sectors (which include Montana's small, but robust high-tech producers) continue to expand, counter to the national trend.

The major risks to the forecast are:

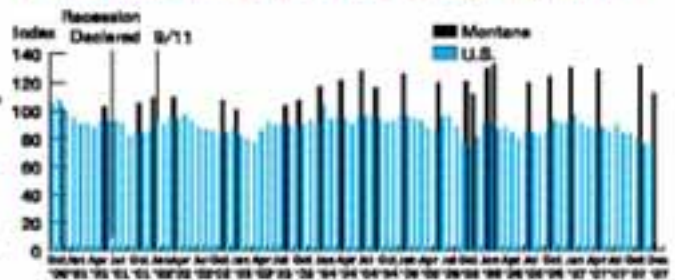
- 1) A worldwide bumper crop, which would quickly depress wheat prices.

Figure 1
Annual Percent Change in Nonfarm Wage and Salary Employment
January 2001 to November 2007



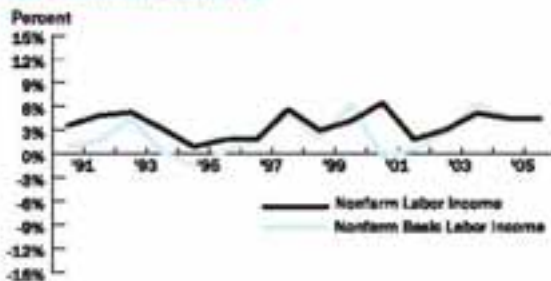
Source: Research and Analysis Bureau, Montana Department of Labor and Industry.

Figure 2
Index of Consumer Sentiment, U.S. and Montana, October 2000 to December 2007



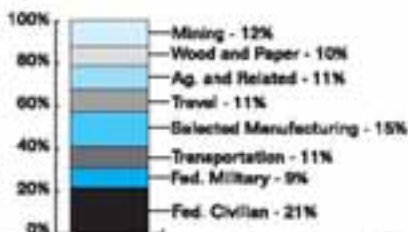
Source: Bureau of Business and Economic Research, The University of Montana-Missoula; The University of Michigan.

Figure 3
Nonfarm Labor Income and Nonfarm Basic Labor Income, Montana, Percent Change, [in constant dollars]



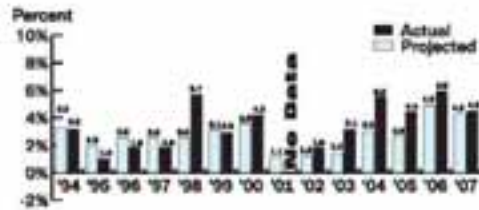
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 4
Labor Income in Basic Industries, Montana, 2005-2007 [percent of total]



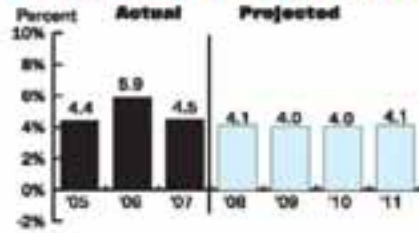
Source: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 5
Actual and Projected Percent Change in Nonfarm Labor Income, Montana, 1994-2007



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 6
Actual and Projected Change in Nonfarm Labor Income, Montana, 2005-2011



Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Bureau of Economic Analysis, U.S. Department of Commerce.

- 2) The U.S. economy does go into recession, and the recession takes an unanticipated turn that impacts important Montana industries.
- 3) Terrorist attacks and/or geopolitical events (such as financial or political crisis) that could dampen fast growth in developing countries and slow the natural resource boom.
- 4) After bucking the national trend, Montana construction activity nosedives.

Table 2
Index of Single-Family Home Prices, Annual Percent Change

	Missoula County	Cascade County	Yellowstone County	MT	U.S.
2006Q3 - 2001Q3	5.8	6.5	9.1	7.7	1.8
2006Q3 - 2006Q3	10.6	13.3	6.2	13.0	7.5
2004Q3 - 2006Q3	10.6	7.1	10.6	12.5	12.4

Source: U.S. Office of Federal Housing Oversight.

Table 3
Population, Montana and Regions, 1990-2010

	Thousands of Persons				Average Annual Percent Change		
	Actual		Projected		1990-2000	2000-2006	2005-2010
	1990	2000	2006	2010			
Montana	800	902	945	960	1.2%	0.8%	0.9%
West	335	400	421	450	1.8%	0.9%	1.7%
Missoula	79	90	102	108	1.9%	1.2%	1.4%
Flathead	60	75	85	93	2.3%	2.1%	2.3%
Silver Bow	34	30	33	37	0.3%	-1.0%	2.9%
Lewis and Clark	48	56	58	61	1.5%	0.6%	0.8%
Powell	25	36	41	43	3.7%	2.2%	1.2%
Rest of West	89	103	101	108	1.8%	-0.3%	1.7%
North-Central	181	183	183	184	0.1%	0.0%	0.1%
Cascade	78	80	80	82	0.3%	0.0%	0.0%
Hill	18	17	16	17	-0.6%	-1.0%	1.5%
Fergus	12	12	12	13	0.0%	0.0%	2.0%
Rest of North-Central	73	74	75	72	0.1%	0.2%	-1.0%
Southeast	284	319	341	340	1.2%	1.1%	0.4%
Yellowstone	114	128	138	140	1.2%	1.3%	1.2%
Gallatin	51	68	81	88	2.9%	3.0%	2.1%
Richland	11	10	9	11	-0.9%	-1.7%	5.1%
Custer	12	12	11	12	0.0%	-1.4%	2.2%
Rest of Southeast	96	101	102	90	0.5%	0.2%	-3.1%

Sources: Bureau of the Census, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Budget Message
FY 09 Final Operating and Capital Budget

As the result of the recent severe financial problems at the national level, the Bureau of Business and Economic Research (BBER) has revised its economic forecasts from this past Spring. Some excerpts from the revised forecasts are restated below:

A University of Montana economist, Patrick Barkey, has scaled back his forecast of the state's economic performance for 2008 and 2009 – from 4 percent annual growth to 3.3 percent.

The state-level employment and personal income data are encouraging, he said. Montana's year-over-year payroll employment growth of 1.3 percent over the last 12 months was better than all but four of the 50 states, Barkey said. Non-farm labor income grew at an annual rate of 4.6 percent during the first quarter of 2008 and 4.5 percent during the second quarter. These figures were down from where they were at this same time last year – 5.7 percent to 6.5 percent, respectively, which is consistent with the modest slowing BBER is predicting. Other news on the state's important industries is more mixed. The era of robust growth in construction ended in Montana in mid-2007, and employment trends are now stable, which is better than the rest of the country where steep declines are the norm, Barkey said. A more severe than expected U.S. recession is always a risk to BBER's forecast for the Montana economy, Barkey said. The impacts of the last two recessions (in 2001-02 and 1990-91) have been milder in Montana than the national average.

Closing

We hope the information contained in the FY 09 Final Budget is of benefit to all interested parties. In closing we want to tell the public that we made dramatic changes in the budget process for FY 08 that continued in FY 09. We will be actively pursuing a Performance Based Budget process for FY 09 and beyond. We strongly encourage each and every person using city services to inform us of their ideas, level of satisfaction and problems.



Respectfully

John Engen, Mayor

BUDGET PROCESS

RECOMMENDED BUDGET PRACTICES

The City of Missoula is striving to incorporate the recommended practices promulgated by the National Advisory Council on State and Local Budgeting (NACSLB) in its annual budget.

The NACSLB was created to provide tools for governments to improve their budgeting processes and to promote their use. The NACSLB focuses on long-term financial planning and encourages governments to consider the longer consequences of actions to ensure that impacts of budget decisions are understood over a multi-year planning horizon and to assess whether program and service levels can be sustained. Practices encourage the development of organizational goals, establishment of policies and plans to achieve these goals, and allocation of resources through the budget process that are consistent with goals, policies and plans. There is also a focus on measuring performance to determine what has been accomplished with scarce government resources.

Following are excerpts of the NACSLB's budget practice recommendations.

BUDGET DEFINITION

The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

A good budget process is characterized by several essential features.

- Incorporates a long-term perspective
- Establishes linkages to broad goals
- Focuses budgeting decisions on results and outcomes
- Involves and promotes effective communication with stakeholders
- Provides incentives to government management and employees

These key characteristics of good budgeting make clear that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line-item expenditure control, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness.

MISSION OF THE BUDGET PROCESS

The mission of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process. Communication and involvement with citizens and other stakeholders is stressed. Communication and involvement are essential components of every aspect of the budget process.

PERFORMANCE BUDGETING

The City of Missoula is moving to a Performance Budgeting approach for the development of its annual operating budget. Performance budgets emphasize the accomplishment of program objectives as opposed to a description of what is going to be purchased by the government.

Performance budgeting involves a shift away from a debate by the City Council of what is going to be purchased toward a debate regarding what is going to be accomplished.

The City of Missoula is in the early stages of its Performance Budgeting efforts. Each department is in the process of identifying performance objectives, identifying and tracking workload indicators, and establishing quantifiable performance measures. It is anticipated that it will take 3 – 5 years to fully implement the performance budgeting system.

FINANCIAL TREND ANALYSIS

The budget process begins in the winter with the initial updating of the five-year financial trend analysis for the City as a whole.

Using the latest fiscal, operational, and legislative information, the finance office staff works collaboratively with city departments to update the city's most recent financial trend analysis.

The financial trend analysis assists the City Council and the city administration in focusing on the "Big Picture" of the city's financial operations.

BUDGET PROCESS

NEEDS ASSESSMENT PHASE

Late Winter – Early Spring

Departments have an opportunity to assess current conditions, programs, and needs. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested. During this phase, departments are encouraged to thoroughly review all programs and services, assessing their value and priority to the citizens. At the same time, departments are asked to submit requests for new or expanded programs. The first proposals submitted for review are those capital requests that fit within the City's five-year capital improvement program.

From this process, they prepare their preliminary departmental budgets.

BUDGET DEVELOPMENT AND PRIORITIZATION PHASE

The Finance Department compiles and tabulates the budgetary information submitted by the individual departments and begins the preparation of the preliminary budget in cooperation with the Mayor, City Administrator and the City's CIP and operating budget teams. The needs of the city departments are weighed against projected funds available and a determination must be made as to which services will be included in the final budget. The operating budget includes proposed expenditures and the means of financing them. All capital and operating new requests are scored and ranked by the CIP and operating budget teams.

Within the framework of the City's financial capacity, City Council priorities and departmental needs assessments, budget requests are reviewed and a preliminary City operating budget takes shape.

The purpose of the preliminary budget is to enable the community, stakeholders and the City Commission to comment on a balanced budget well before it is adopted.

CAPITAL IMPROVEMENTS PROGRAM (CIP) AND ITS RELATIONSHIP TO THE OPERATING BUDGET

The City of Missoula prepares a Capital Improvement Plan (CIP) document separate and

apart from the Annual Operating Budget. Unlike the Annual Operating Budget, the CIP is a multi-year capital improvements plan that forecasts, but does not obligate, future spending for all anticipated capital projects.

Whenever the City commits to a CIP plan, there is an associated long-range commitment of operating funds. For this reason, it is important to evaluate capital commitments in the context of their long-range operating impact. Most capital projects affect future operating budgets either positively or negatively due to an increase or decrease in maintenance costs or by providing capacity for new programs to be offered. Such impacts vary widely from project to project and, as such, are evaluated individually during the process of assessing project feasibility.

The multi-year, long-range fiscal analysis also provides an opportunity to review the operating impact of growth-related future capital projects.

ADOPTION/IMPLEMENTATION PHASE

Public hearings are conducted to enable citizens and other interested parties to comment on the proposed budget. Following the public hearings, the City Council may modify the proposed budget or may adopt it without changes.

The budget and the corresponding property tax mill levy must be adopted by the 3rd Monday in August.

Management control of the budget is maintained by monthly revenue and expenditure reports, whereby departments are able to compare actual results to the budget throughout the fiscal year. In addition, the Finance Director prepares quarterly budget reviews on a city-wide basis, with presentations to the City Council at a public meeting. These budget reviews are aimed at examining expenditure patterns, and recommending corrective action to be taken during the year.

AMENDING THE BUDGET

The city's budget may be amended during the course of the year, following public notice, a public hearing, and a majority vote of the City Council. The Finance Director presents an Ordinance to the City Council at a duly noticed public meeting. The Council considers the Ordinance. If approved, a formal public notice is forwarded to the newspaper, setting the date, time, reason, and funding source for the proposed budget amendment. At the public meeting, the Council hears information from the public, Department Heads, and the Finance

Department. The City Council considers the Ordinance and may approve, table, or deny the Budget Amendment.

The City Council exercises budgetary control at the summary object of expenditure level (salaries, operations, and capital). Within those areas departments can spend as needed for individual line items.

THE BUDGET CALENDAR

January

Finance Office prepares estimated year end working capital (cash), estimates revenue for the coming year, and adjusts current year's budget to project next year's needs - information presented to City Administration and Budget team. Capital Improvement Program initiated for next fiscal year with press release notifying the public and work shop for all city supervisory staff.

February

Finance Office analyses and assimilates proposed capital improvement project (CIP) revenues and expenditures. The CIP is prepared to be reviewed by the CIP budget team. A work shop is held with all supervisory and support staff involved in the operating budget development for next fiscal year. Revenue estimates are made along with salary adjustment parameters and costs for all budgets.

March

The CIP budget team meets with all offices who submitted CIP budget requests encompassing requested funding over the next five years. The CIP budget team scores all CIP requests. Referrals are made to the Administration & Finance (A & F) Committee of the City Council to review all CIP budget requests approved for inclusion in the City's CIP. A & F meetings commence on the CIP.

April

A & F meetings review of the new CIP requests is concluded. Operating Budget meetings are held with the City's operating budget team and all City departments. All funding streams are reviewed and all requests are discussed at length with the budget team that includes the Mayor and City Administrator. The Mayor meets with the budget team to finalize the preliminary budget for next year.

May

The Mayor and budget team meet with all department heads and staff to discuss the Mayor's proposed preliminary budget. All budget appeals are heard by the Mayor, City Administrator and Finance Director. The preliminary budget is referred to the Council Budget Committee of the Whole for discussion. Public hearings are scheduled.

June

The preliminary budget is adopted and the council begins its budget meetings with all City departments and outside agencies who are requesting City support. The public hearings are held open until the budget is adopted in August.

July

The City Council continues to take comment on the budget at the public hearings, which are held open until adoption. The Council also continues to meet with City offices on their budget requests. No decisions are made until the budget deliberations begin, which starts in the last half of July.

August

Final Public Meeting held on budget. City Council approves Resolutions setting appropriations and tax levies. Finance Office prepares information for Council to send to Departments. Finance Office updates final adopted budget for final personnel changes and adjustments approved by Council. Final Budget Document preparation is started.

September

Final budget document is published on the web-site either in September or October. On-going review and monitoring of current year budget.

Preparations being made for the coming year.

October

On-going review and monitoring of current year budget.

Preparations being made for the coming year.

November

On-going review and monitoring of current year budget.

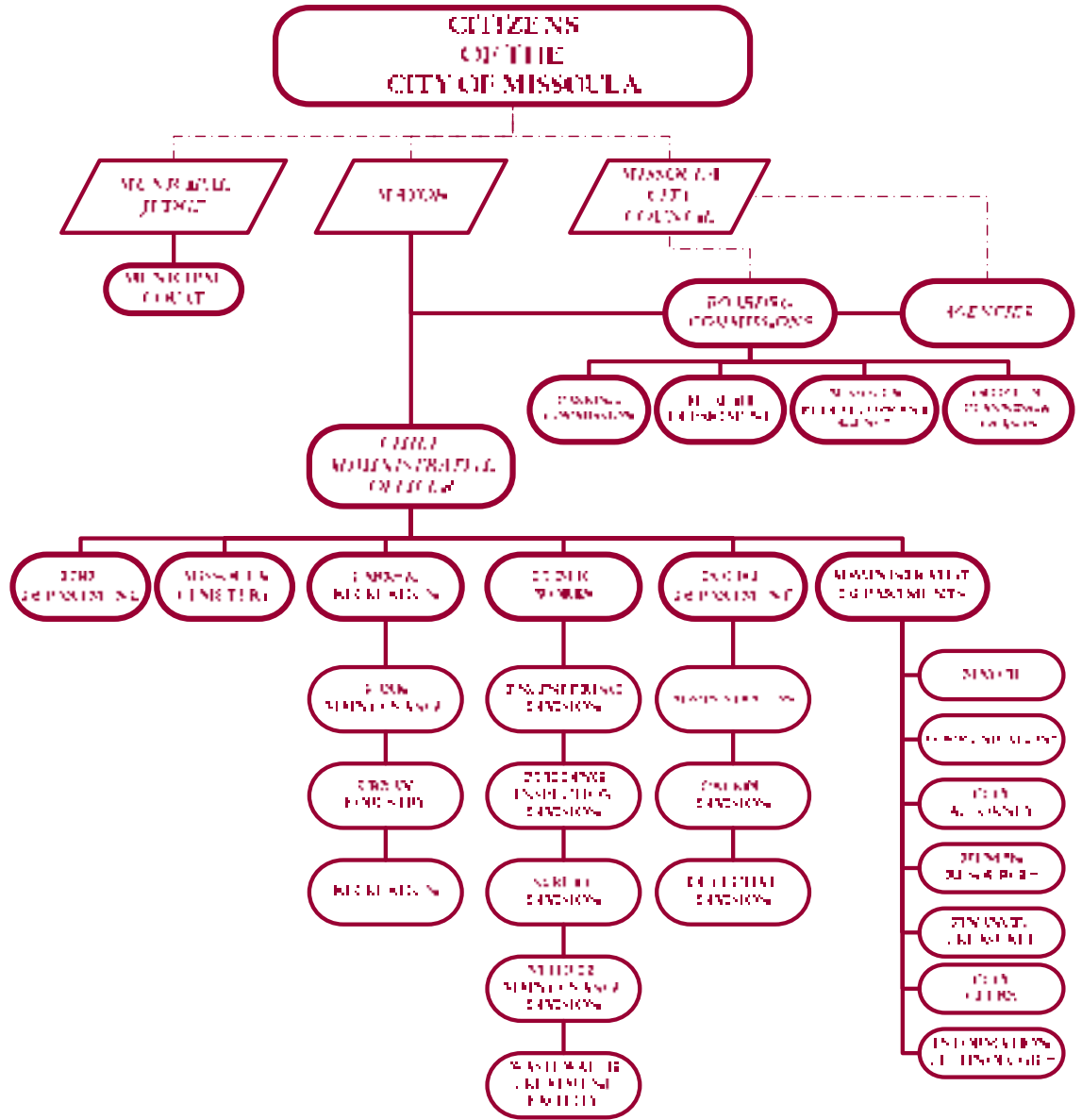
Preparations being made for the coming year.

December

On-going review and monitoring of current year budget.

Preparations being made for the coming year.

CITY OF MISSOULA



MISSOULA CITY CLERK
OFFICE

FINANCIAL POLICIES

The City of Missoula has an important responsibility to its citizens to carefully account for public funds, manage city finances wisely, manage growth, and plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. As Missoula continues to grow at a record pace, its government needs to insure that it is capable of adequately funding and providing those local government services the citizens require. The following fiscal and budgetary policies are designed to meet these goals.

The overall goal of the city's fiscal policy is to establish and maintain effective management of the city's financial resources. Formal policy statements and major objectives provide the foundation for achieving this goal. Accordingly, this section outlines the policies used in guiding the preparation and management of the city's overall budget and the major objectives to be accomplished.

Financial policies are guidelines for operational and strategic decision making related to financial matters. Financial policies identify acceptable and unacceptable courses of action, establish parameters in which the government can operate, and provide a standard against which the government's fiscal performance can be judged.

The following City financial policies, endorsed by the City Council, establish the framework for the City of Missoula's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured. The City of Missoula's financial policies show the credit rating industry and prospective investors (bond buyers) the City's commitment to sound financial management and fiscal integrity. The financial policies also improve the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in City bond ratings and lower cost of capital. The City is in compliance with the comprehensive financial policies in this budget.

OPERATING BUDGET POLICIES

for City resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.

Links to Financial Plans

- 1) **Five-Year Plan.** The City of Missoula's annual budget will be developed in accordance with the policies and priorities set forth in the five year strategic financial plan, Council goals, the needs of the city, and state and federal laws. Program/project priorities and service levels will be established by the aforementioned plans.

Scope.

- 1) **Comprehensive Budget.** A comprehensive annual budget will be prepared for all funds expended by the city. State law (7-6-4005), states that "Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund." Inclusion of all funds in the budget enables the council, the administration, and the public to consider all financial aspects of city government when preparing, modifying, and monitoring the budget, rather than deal with the city's finances on a "piece meal" basis.
- 2) **Competing Requests.** The budget process is intended to weigh all competing requests

- 3) **Understandable.** The budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials. One of the stated purposes of the budget is to present a picture of the city government operations and intentions for the year to the citizens of the City of Missoula. Presenting a budget document that is understandable to the citizens furthers the goal of effectively communicating local government finance issues to both elected officials and the public.

- 4) **Budgetary Emphasis.** Budgetary emphasis will focus on providing those basic government services which provide the maximum level of services, to the most citizens, in the most cost effective manner, with due consideration being given to all costs--economic, fiscal, and social. Adherence to this basic philosophy provides the citizens of the City of Missoula assurance that its government and elected officials are responsive to the basic needs of the citizens and that its government is operated in an economical and efficient manner.

FINANCIAL POLICIES

Budgeting Control System.

- 1) **Budgetary Control.** The City will exercise budgetary control (maximum spending authority) through City Council approval of appropriation authority for each program. The budgetary control system enables the Council to monitor current year operations and acts as an early warning mechanism when departments deviate in any substantive way from the original budget.
- 2) **Budget to Actual Reports.** Reports comparing actual revenues and expenditures to budgeted amounts will be prepared monthly and posted to the City's web-site. Monthly reports comparing actual revenues and expenditures to budget amounts provide the mechanism for the Council and the administration to regularly monitor compliance with the adopted budget. Quarterly reports will also be prepared that summarize the monthly detailed reports.

Balanced Budget Definition and Requirement.

- 1) **Balanced Budget.** The city will maintain a balanced budget. This means that:
 - Operating revenues must fully cover operating expenditures, including debt service.
 - Ending fund balance (or working capital in proprietary funds) must meet minimum policy levels.
 - Under this policy, it is allowable for total expenditures to exceed revenues in a given year as long as the projected ending fund balance meets minimum policy levels.

Performance Measurement Integration.

- 1) **Program Objectives.** The annual budget will establish measurable program objectives and allow reasonable time to accomplish those objectives.

REVENUE POLICIES

Diversification and Stabilization.

- 1) **Diversification.** The city will seek to maintain a diversified and stable revenue

base to protect it from short-term fluctuations in any one revenue source.

- 2) **Aggressive Collection.** The city will pursue an aggressive policy of collecting revenues. An aggressive policy of collecting revenues will help to insure the city's revenue estimates are met, all taxpayers are treated fairly and consistently, and delinquencies are kept to a minimum.
- 1) **Grant Opportunities.** The city will aggressively pursue opportunities for Federal or State grant funding. An aggressive policy of pursuing opportunities for Federal or State grant funding provides citizens assurance that the city is striving to obtain all state and federal funds to which it is entitled--thereby reducing dependence upon local taxpayers for the support of local public services.
- 2) **Current Revenues for Current Uses.** The city will make all current expenditures with current revenues.
- 3) **Enterprise Funds.** The city will set fees and rates at levels which fully recover the total direct and indirect costs—including operations, depreciation of capital assets, and debt service.
- 4) **Earmarking.** The City recognizes that generally accepted accounting principles for state and local governments discourage the "earmarking" of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the City's management of its fiscal affairs.
- 5) **Realistic and Conservative.** The city will estimate revenues in a realistic and conservative manner. Aggressive revenue estimates significantly increase the chances of budgetary shortfalls occurring during the year--resulting in either deficit spending or required spending reductions. Realistic and conservative revenue estimates, on the other hand, will serve to minimize the adverse impact of revenue shortfalls and will also reduce the need for mid-year spending reductions.
- 6) **One-Time Revenues.** The city will give highest priority in the use of one-time revenues to the funding of capital assets or other non-recurring expenditures. Utilizing one-time revenues to fund on-going expenditures results in incurring annual expenditure obligations which may be

FINANCIAL POLICIES

unfunded in future years. Using one-time revenues to fund capital assets or other non-recurring expenditures better enables future administrations and council's to cope with the financial problems when these revenue sources are discontinued, since these types of expenditures can more easily be eliminated.

User Fees.

- 1) **Cost-Effective.** User fees will be collected only if the city finds it cost-effective and administratively feasible to do so. User fees are often costly to administer. Prior to establishing user fees, the costs to establish and administer the fees will be considered in order to provide assurance that the city's collection mechanisms are being operated in an efficient manner.
- 2) **Beneficiary Populations.** User fees and charges will be used, as opposed to general taxes, when distinct beneficiary populations or interest groups can be identified. User fees and charges are preferable to general taxes because user charges can provide clear demand signals which assist in determining what services to offer, their quantity, and their quality. User charges are also more equitable, since only those who use and benefit from the service must pay--thereby eliminating the subsidy provided by nonusers to users, which is inherent in general tax financing.
- 3) **Community-Wide Versus Special Benefit.** The level of user fee cost recovery should consider the community-wide versus special service nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while other user fees are appropriate for services that are of special benefit to identified individuals or groups.
- 4) **General.** The following general concepts will be used in developing and implementing service charges and user fees:
 - Revenues should not exceed the reasonable cost of providing the service.
 - Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs such as accounting, personnel, information technology, legal services, fleet maintenance, and insurance.

- The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
- A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

EXPENDITURE POLICIES

Maintenance of Capital Assets.

Capital Assets. The budget will provide for adequate maintenance of capital, plant, and equipment and for their orderly replacement. All governments experience prosperous times as well as periods of economic decline. In periods of economic decline, proper maintenance and replacement of capital, plant, and equipment is generally postponed or eliminated as a first means of balancing the budget. Recognition of the need for adequate maintenance and replacement of capital, plant, and equipment, regardless of the economic conditions, will assist in maintaining the government's equipment and infrastructure in good operating condition.

RESERVE POLICIES

Unreserved Fund Balance.

- 1) **General Fund.** An undesignated general fund reserve will be maintained by the city. The undesignated reserve will be used for: cash flow purposes, equipment acquisition and replacement, and to enable the city to meet unexpected expenditure demands or revenue shortfalls. The City will focus on attaining and maintaining a fund balance equal to 7% of the General Fund's budget.
- 2) **Enterprise Funds.** Enterprise Fund Reserves will be maintained to meet four objectives: (1) ensure adequate funding for

FINANCIAL POLICIES

operations; (2) to ensure infrastructure repair and replacement; (3) to provide working capital to provide level rate change for customers; and, (4) to maintain the legally required coverage for outstanding revenue bond debt.

- 3) **Insurance Funds.** Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the City's property, liability, and health benefit risk. The City will focus on attaining and maintaining a fund balance equal to three months of claims experience for the City's health plan insurance budget.
- 4) **Required Reserves.** Reserves will be established for funds which are not available for expenditure or are legally segregated for a specific use, in accordance with Governmental Accounting and Financial Reporting Standards (GAFR). The City's policy is to manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). This policy is consistent with GASB requirements.

Utilizing Unreserved Fund Balances.

- 1) **Spending Reserves.** On-going expenditures will be limited to levels which can be supported by current revenues. Utilization of reserves to fund on-going expenditures will produce a balanced budget, however, this practice will eventually cause severe financial problems. Once reserve levels are depleted, the city would face elimination of on-going costs in order to balance the budget. Therefore, the funding of on-going expenditures will be limited to current revenues.

CAPITAL IMPROVEMENT POLICIES

CIP Formulation.

- 1) **CIP Purpose.** The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or

infrastructure; and capital facility projects that significantly expand or add to the City's existing fixed assets.

- 2) **CIP Criteria.** Construction projects and capital purchases of \$5,000 or more will be included in the Capital Improvement Plan (CIP) as long as the useful life of the asset exceeds five years; minor capital outlays of less than \$5,000 will be included in the regular operating budget. Vehicles intended for use on streets and highways, costing less than \$35,000, are not included in the CIP. The Capital Improvement Plan (CIP) differentiates the financing of high cost long-lived physical improvements from low cost "consumable" equipment items contained in the operating budget. CIP items may be funded through debt financing or current revenues while operating budget items are annual or routine in nature and should only be financed from current revenues.
- 3) **Deteriorating Infrastructure.** The capital improvement plan will include, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.

Project Financing.

- 1) **Minor Capital Projects.** Minor capital projects or recurring capital projects, which primarily benefit current residents, will be financed from current revenues. Minor capital projects or recurring capital projects represent relatively small costs of an on-going nature, and therefore, should be financed with current revenues rather than utilizing debt financing. This policy also reflects the view that those who benefit from a capital project should pay for the project.
- 2) **Major Capital Projects.** Major capital projects, which benefit future residents, will be financed with other financing sources (e.g. debt financing). Major capital projects represent large expenditures of a non-recurring nature which primarily benefit future residents. Debt financing provides a means of generating sufficient funds to pay for the costs of major projects. Debt financing also enables the costs of the project to be supported by those who benefit from the project, since debt service payments will be funded through charges to future residents.

FINANCIAL POLICIES

DEBT MANAGEMENT POLICIES

Restrictions on Debt Issuance.

- 1) **Repayment of Borrow Funds.** The city will repay borrowed funds, used for capital projects, within a period not to exceed the expected useful life of the project. This policy reflects the view that those residents who benefit from a project should pay for the project. Adherence to this policy will also help prevent the government from over-extending itself with regard to the incurrence of future debt.

Limitations on Outstanding Debt

- 1) **Reliance on Long-Term Debt.** The City will limit long-term debt to capital improvements which cannot be financed from current revenues. Incurring long-term debt serves to obligate future taxpayers. Excess reliance on long-term can cause debt levels to reach or exceed the government's ability to pay. Therefore, conscientious use of long-term debt will provide assurance that future residents will be able service the debt obligations left by former residents.
- 2) **Debt Not Used for Current Operations.** The city will not use long-term debt for financing current operations. This policy reflects the view that those residents who benefit from a service should pay for the service. Utilization of long-term debt to support current operations would result in future residents supporting services provided to current residents.

Debt Refinancing

- 1) **General Refinancing Guidelines.** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within federal tax law constraints) under the following conditions:
 - There is a net economic benefit.
 - It is needed to modernize covenants that are adversely affecting the City's financial position or operations.
 - The City wants to reduce the principal outstanding in order to achieve future working capital to do so from other sources.

- 2) **Standards for Economic Savings.** The federal government has placed significant conditions on the tax-exempt refunding of outstanding issues. Refundings have two general categories:
 - Current refundings, where the refunding bonds are settled within 90 days of an optional prepayment date; and
 - Advance refundings, where refundings are settled more than 90 days in advance of an optional prepayment date. The federal restrictions are that any issue can only be advance refunded once on a tax-exempt basis.

On advance refundings the City will seek to obtain a minimum present value savings level of 3% of the present value of refunded debt service. State law requires a demonstration of savings of 0.5% reduction in the average coupon interest rate between the refunding and refunded bonds.

The complete debt management policy for the City of Missoula can be found in the appendix to this budget document.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES

GAAP. The City will manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). GASB is recognized as the authority with respect to governmental accounting. Managing the city's finances in accordance with GAAP and in accordance with the rules set forth by GASB, provides the citizens of the City of Missoula assurance that their public funds are being accounted for in a proper manner.

Basis of Accounting. The city will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on an accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or

FINANCIAL POLICIES

payment of cash. Adherence to this policy will enable the city to prepare its financial statements in accordance with Generally Accepted Accounting Principles as set forth by the Governmental Accounting Standards Board. The basis of accounting is the same for both the budget and the financial statements.

Financial Report. The City of Missoula will prepare an Annual Financial Report (AFR) in conformity with Generally Accepted Accounting Principles (GAAP). The report will be made available to the general public.

Audits. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the City's published Annual Financial Report (AFR). Audits of the city's financial records provide the public assurance that its funds are being expended in accordance with Local, State, and Federal law and in accordance with Generally Accepted Accounting Principles. Audits also provide management and the Council with suggestions for improvement in its financial operations from independent experts in the accounting field.

INVESTMENT POLICIES

Scope

This policy applies to the investment of short-term operating funds. Proceeds from certain bond issues will be covered by a separate policy.

Pooling of Funds. Except for cash in certain restricted and special funds, the City of Missoula will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

General Objectives. The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. **Credit Risk**
The City of Missoula will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- i. Limiting investments to the safest types of securities
- ii. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Missoula will do business
- iii. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. **Interest Rate Risk**
The City of Missoula will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Liquidity The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.

Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return

throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a. A security with declining credit may be sold early to minimize loss of principal.
- b. A security swap would improve the quality, yield, or target duration in the portfolio.
- c. Liquidity needs of the portfolio require that the security be sold.

Other areas. The complete investment policy, which is provided in detail in the appendix, also addresses standards of care, ethics and conflicts of interest, delegation of authority, safekeeping and custody, suitable and authorized investments, investment parameters, maximum maturities, and policy considerations.

FUND ACCOUNTING

The City of Missoula maintains accounts in accordance to the principle of fund accounting to ensure that limitations and restrictions on the City's available resources are observed and adhered to. Fund accounting classifies resources into funds or account groups with respect to the intended activities or objectives specified by those resources for accounting controls and financial reporting purposes. Each fund is an independent fiscal and accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise of assets, liabilities, fund equity, revenues, and expenditures or expenses. Account groups are reporting mechanisms used to compile certain assets and liabilities of the governmental funds that are not directly recorded in those funds.

A **FUND** is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The most common reason for establishing a fund is to separately account for a restricted-use revenue or to comply with state or federal law.

There is no limit to the number of funds that a government may establish and maintain for accounting and financial reporting. A generally practiced governmental accounting guideline is that a government should use the smallest number of individual funds as possible, consistent with its particular circumstances, and that individual funds are closed when its intended purpose no longer exists.

An **ACCOUNT** is an organizational or budgetary breakdown which is found within city funds. Each department serves a specific function as a distinct organizational unit of government within the given fund. Its

primary purpose is organizational and budgetary accountability.

An **OBJECT OF EXPENDITURE** refers to specific, detailed expenditure classification. It relates to a specific type of item purchased or service obtained. Examples of objects of expenditure include salaries, supplies, contracted services, travel, etc.

The city's financial operations and fund structure conform to generally accepted accounting principles. The funds are grouped under governmental funds, proprietary funds, and fiduciary fund types. The city's fund structure is comprised of the following funds, all of which are budgeted.

GOVERNMENTAL FUND TYPES

Governmental Funds are those through which most governmental functions of the city are financed. The acquisition, use, and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the city's governmental fund types:

General Fund — accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the City's primary operating fund.

Special Revenue Funds — account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than for major capital projects). Examples include: Building Inspection, Impact Fees, Health Insurance Levy and the Cable Franchise Fee Fund.

Capital Project Funds — account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.) Examples include: Open Space Acquisition, 2006 Fire Station General Obligation Bond Construction Fund and the Capital Improvement Program Fund.

Debt Service Funds — account for the accumulation of resources for, and the

FINANCIAL STRUCTURE

payment of, principal and interest on general long-term debt.

PROPRIETARY FUND TYPES

Proprietary Funds are used to account for ongoing organizations or activities which are similar to those often found in the private sector. The following proprietary funds are used by the city.

Enterprise Funds — account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Examples include: Wastewater Treatment Plant Fund.

Internal Service Funds — account for the financing of goods or services provided by one department to other departments of the City, or to other governmental units, on a cost-reimbursement basis. Examples include: Employee Health Insurance.

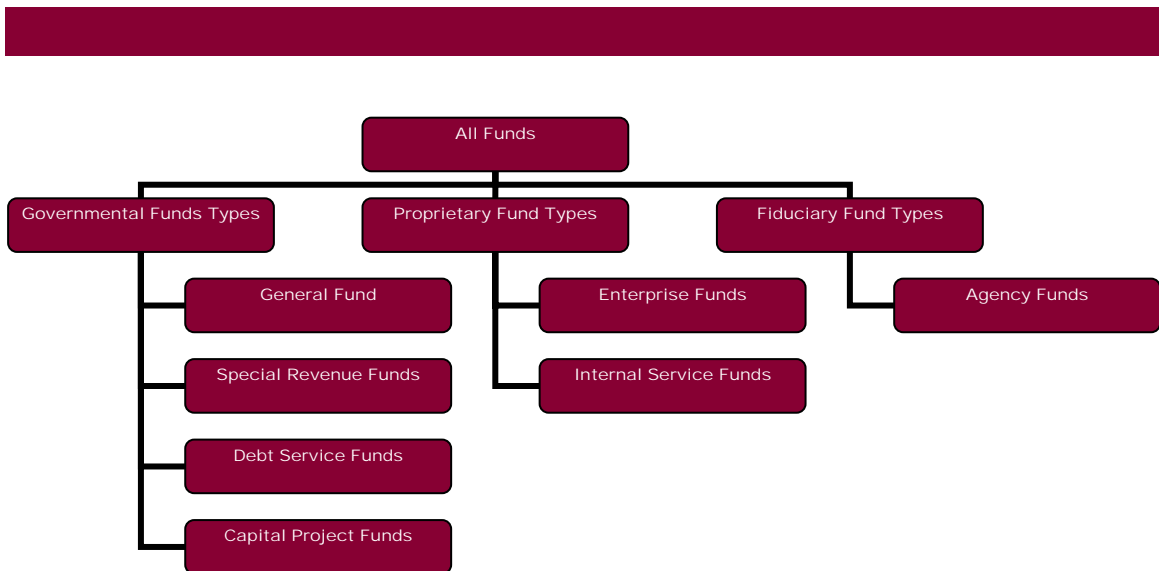
FIDUCIARY FUND TYPES

Trust and Agency Funds: Trust and agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Examples include: Business Improvement District.

CONSISTENCY WITH AUDITED FINANCIAL STATEMENTS

The City of Missoula's budgeted funds are consistent with the City's audited financial statements.

Shown below is a graphic summary of the City's fund Structure.



ORGANIZATIONAL UNITS

FUNCTIONS, DEPARTMENTS, PROGRAMS/ACTIVITIES

PURPOSE

The organizational units set forth in this section of the Budget represent the City's system of delivery of services and allows the City to accomplish the following:

- Establish policies and goals that define the nature and level of service to be provided.
- Identify activities performed in delivering program services.
- Set objectives for improving delivery of services.
- Appropriate the resources required to perform activities and accomplish objectives.

ORGANIZATION

The city's operating expenditures are organized into the following hierarchical categories:

- Function
- Department
- Program/Activity

FUNCTION

Function represents the highest level of summarization used in the City's operating structure. Functions are a grouping of relating operations and programs that may cross organizational (departmental) boundaries. Functions are aimed at accomplishing a broad goal or delivering a major service. The five functions in the city's operating structure are:

- General Government
- Public Safety
- Public Works
- Public Health
- Social & Economic Services
- Culture & Recreation
- Housing & Community Development
- Conservation of Natural Resources
- Miscellaneous

DEPARTMENTS

Departments represent a grouping of related programs within a functional area such as Police Department within the broad functional area of Public Safety.

PROGRAM/ACTIVITY

Programs/Activities of a Department are the specific services and task performed in the pursuit of its objectives and goals.

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OVERVIEW OF BUDGETED RESOURCES

**SUMMARY OF MAJOR REVENUES, EXPENDITURES
AND OTHER FINANCING SOURCES/USES
July 1, 2008 through June 30, 2009 (FY 09)**

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Component Units	Total All Funds
	General	Special Revenue	Debt Service	Capital Project	Enterprise	Internal Service	Trust & Agency		
Projected Beginning									
Fund/Working Capital Balance	\$ 2,039,921	\$ 2,687,117	\$ 2,192,474	\$ 1,823,362	\$ 3,165,762	\$ 1,750,000	\$ -	\$ 7,333,759	\$ 20,992,395
Estimated Revenues									
Taxes & Assessments	18,764,151	3,759,892	4,523,270	-	-	-	-	2,247,461	29,294,774
Licenses & Permits	1,504,343	529,822	-	-	-	-	-	-	2,034,165
Intergovernmental	9,727,847	7,320,209	-	-	-	-	-	783,872	17,831,928
Charges for Services	3,718,090	3,551,815	-	-	8,433,454	-	-	1,000,000	16,703,359
Fines & Forfeitures	1,269,500	260,150	-	-	-	-	-	275,000	1,804,650
Miscellaneous	1,302,799	38,000	-	1,792,603	-	4,025,252	-	-	7,158,654
Investment Earnings	300,000	-	-	-	-	-	-	290,000	590,000
Long Term Debt proceeds	-	-	-	-	-	-	-	1,271,250	1,271,250
Transfers In	4,588,285	-	-	858,307	6,999,454	57,041	-	946,182	13,449,269
Total Estimated Revenues	41,175,015	15,459,888	4,523,270	2,650,910	15,432,908	4,082,293	-	6,813,765	90,138,049
Budgeted Expenditures									
General Government	7,667,377	-	-	-	-	4,082,293	-	-	11,749,670
Public Safety	20,689,601	2,899,070	-	-	-	-	-	-	23,588,671
Public Works	6,814,153	5,141,027	-	-	6,898,824	-	-	1,839,973	20,693,977
Public Health	1,174,656	-	-	-	-	-	-	-	1,174,656
Social and Economic Services	242,321	1,164,117	-	-	-	-	-	-	1,406,438
Culture and Recreation	3,359,360	936,400	-	-	1,183,643	-	-	-	5,479,403
Housing & Community Devel.	1,043,055	2,597,535	-	-	-	-	-	7,184,989	10,825,579
Debt Service	-	-	4,006,366	-	-	-	-	247,275	4,253,641
Internal Service	-	-	-	-	-	-	-	-	-
Capital Outlay	248,109	-	-	4,474,272	-	-	-	-	4,722,381
Transfers Out	1,058,348	4,228,985	125,000	-	7,105,755	-	-	931,182	13,449,270
Total Budgeted Expenditures	42,296,980	16,967,134	4,131,366	4,474,272	15,188,222	4,082,293	-	10,203,419	97,343,686
Projected Change in									
Fund/Working Capital	(1,121,965)	(1,507,246)	391,904	(1,823,362)	244,686	-	-	(3,389,654)	(7,205,637)
Anticipated Exp. Savings	1,205,463	-	-	-	-	-	-	-	-
Projected Ending									
Fund/Working Capital Balance	\$ 2,123,419	\$ 1,179,871	\$ 2,584,378	\$ -	\$ 3,410,448	\$ 1,750,000	\$ -	\$ 3,944,105	\$ 13,786,758

OVERVIEW OF BUDGETED RESOURCES

**SUMMARY OF MAJOR REVENUES, EXPENDITURES
AND OTHER FINANCING SOURCES/USES
July 1, 2007 through June 30, 2008 (FY 08)**

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Component Units	Total All Funds
	General	Special Revenue	Debt Service	Capital Project	Enterprise	Internal Service	Trust & Agency		
Revenues									
Taxes & Assessments	17,312,969	3,521,460	4,236,780	-	-	-	-	1,606,715	26,677,924
Licenses & Permits	1,202,941	2,851,533	-	-	-	-	-	-	4,054,474
Intergovernmental	9,444,310	2,762,218	-	540,612	1,325	-	-	623,518	13,371,983
Charges for Services	3,663,064	248,749	-	-	7,635,175	4,089,331	16,451	1,144,883	16,797,653
Fines & Forfeitures	1,172,962	42,993	-	-	-	-	93,104	285,089	1,594,148
Miscellaneous	595,858	104,597	-	286,905	3,378	-	1,600	2,115	994,453
Investment Earnings	420,695	43,242	208,750	673,676	-	-	-	354,978	1,701,341
				(49,510)					
Total Estimated Revenues	33,812,799	9,574,792	4,445,530	1,451,683	7,639,878	4,089,331	111,155	4,017,298	65,142,466
Expenditures									
General Government	6,118,475	355,849	-	41,414	-	-	-	-	6,515,738
Public Safety	20,268,016	1,369,007	-	-	-	-	101,862	-	21,738,885
Public Works	6,274,691	326,030	-	69,656	-	-	590	1,212,926	7,883,893
Public Health	1,364,663	-	-	-	-	-	13,481	-	1,378,144
Social and economic services	115,000	-	-	-	-	-	5	603,302	718,307
Culture and recreation	3,054,484	49,512	-	14,442	-	-	59	-	3,118,497
Housing & Community Development	1,024,464	1,017,034	-	-	-	-	-	1,077,543	3,119,041
Miscellaneous	-	-	-	-	-	-	-	-	-
Debt Service	-	-	4,127,587	512,247	-	-	-	332,173	4,972,007
Capital Outlay	682,858	860,026	-	6,032,763	-	-	-	1,802,006	9,377,653
Business-type	-	-	-	-	7,485,091	3,724,353	-	-	11,209,444
Total Budgeted Expenditures	38,902,651	3,977,458	4,127,587	6,670,522	7,485,091	3,724,353	115,997	5,027,950	70,031,609
Other Financing Sources (Uses)									
Transfers In	4,418,956	2,000	-	130,500	306,038	55,071	-	953,954	5,866,519
Transfers Out	(491,609)	(3,884,975)	(289,250)	-	(241,240)	-	-	(959,444)	(5,866,518)
Payments - Refunded Bond Escrow	-	-	-	-	-	-	-	-	-
Proceeds from Refunding Bond	-	-	-	-	-	-	-	-	-
Proceeds from LT Debt	-	-	99,114	2,279,240	-	-	-	1,625,000	4,003,354
Sale of Fixed Assets	-	1,564	-	839,056	5,778	-	-	(1,071)	845,327
Property Taxes	-	-	-	-	-	-	-	-	-
Contributions from Property owners	-	-	-	-	1,413,123	-	-	-	1,413,123
Contributions-government activities	-	-	-	-	13,409,207	-	-	-	-
Intergovernmental Revenues	-	-	-	-	-	-	-	-	-
Investment & Royalty Earnings	-	-	-	-	168,312	73,056	-	-	241,368
Debt Service Interest	-	-	-	-	(643,279)	-	-	-	(643,279)
Total Other Financing Sources (Uses)	3,927,347	(3,881,411)	(190,136)	3,248,796	14,417,939	128,127	-	1,618,439	5,859,895
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other									
	(1,162,505)	1,715,923	127,807	(1,970,043)	14,572,727	493,105	(4,842)	607,787	14,379,959
Fund Balance/Net assets - July 1, 2007									
	2,124,659	1,462,685	3,007,558	521,612	62,732,424	1,526,303	342,789	10,890,937	82,608,967
Change in Accounting Principle									
	239,919	50,797	40,208	-	-	-	-	-	-
Restatement									
	-	(20,896)	-	(22,866)	(4,745)	(37,535)	-	2,334	(83,708)
Residual Equity Transfer									
	-	-	-	-	-	-	-	-	-
Fund Balance/Net assets - June 30, 2008	1,202,073	3,208,509	3,175,573	(1,471,297)	77,300,406	1,981,873	337,947	11,552,182	96,905,218

OVERVIEW OF BUDGETED RESOURCES

**SUMMARY OF MAJOR REVENUES, EXPENDITURES
AND OTHER FINANCING SOURCES/USES
July 1, 2006 through June 30, 2007 (FY 07)**

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Component Units	Total All Funds
	General	Special Revenue	Debt Service	Capital Project	Enterprise	Internal Service	Trust & Agency		
<u>Revenues</u>									
Taxes & Assessments	16,412,799	3,536,582	4,179,004	-	-	-	285,671	1,301,246	25,715,302
Licenses & Permits	1,276,867	1,650,607	-	-	-	-	11,437	-	2,938,911
Intergovernmental	8,605,071	4,425,842	-	4,785	848	-	27,985	285,544	13,350,076
Charges for Services	4,235,878	305,099	-	-	6,510,110	3,987,568	-	1,126,022	16,164,677
Fines & Forfeitures	1,370,311	51,277	-	-	-	-	126,870	265,346	1,813,804
Miscellaneous	522,664	86,832	17,323	348,715	2,337	-	106	40,214	1,018,191
Investment Earnings	409,771	32,353	117,831	(21,537)	-	-	-	300,564	838,982
Total Estimated Revenues	32,833,361	10,088,592	4,314,158	331,963	6,513,295	3,987,568	452,069	3,318,936	61,839,942
<u>Expenditures</u>									
General Government	5,364,086	300,037	34,292	46,941	-	-	-	-	5,745,356
Public Safety	18,259,974	1,562,048	-	58,710	-	-	100,815	-	19,981,547
Public Works	5,733,706	328,842	-	99,380	-	-	6,000	920,231	7,088,159
Public Health	1,249,223	-	-	-	-	-	12,204	-	1,261,427
Social and economic services	132,897	-	-	-	-	-	-	-	132,897
Culture and recreation	3,621,833	50,611	-	4,035	-	-	-	-	3,676,479
Housing & Community Development	-	2,202,392	-	-	-	-	-	4,081,735	6,284,127
Miscellaneous	947,093	-	-	-	-	-	-	-	947,093
Debt Service	-	-	777,645	-	-	-	-	67,728	845,373
Capital Outlay	602,106	-	6,464,109	557,055	-	-	-	-	7,623,270
Business-type	-	1,209,311	-	7,304,823	5,554,977	3,577,142	173,941	-	17,820,194
Total Budgeted Expenditures	35,910,918	5,653,241	7,276,046	8,070,944	5,554,977	3,577,142	292,960	5,069,694	71,405,923
<u>Other Financing Sources (Uses)</u>									
Transfers In	4,347,950	114,499	497,401	2,044,025	-	50,249	-	298,373	7,352,497
Transfers Out	(1,075,249)	(5,026,737)	(593,637)	(125,436)	(233,065)	-	-	(788,268)	(7,842,392)
Payments - Refunded Bond Escrow	-	-	(2,037,769)	-	-	-	-	-	(2,037,769)
Proceeds from Refunding Bond	-	-	4,355,000	-	-	-	-	-	4,355,000
Proceeds from LT Debt	-	-	133,411	11,440,940	-	-	-	3,348,900	14,923,251
Sale of Fixed Assets	-	-	-	-	9,860	-	-	-	9,860
Property Taxes	-	-	-	-	-	-	-	-	-
Contributions from Property owners	-	-	-	-	1,207,663	-	-	-	1,207,663
Intergovernmental Revenues	-	-	-	-	-	-	-	-	-
Investment & Royalty Earnings	-	-	-	-	330,545	78,377	-	-	408,922
Debt Service Interest	-	-	-	-	(684,329)	-	-	-	(684,329)
Total Other Financing Sources (Uses)	3,272,701	(4,912,238)	2,354,406	13,359,529	630,674	128,626	-	2,859,005	17,692,703
<u>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other</u>									
Sources Over Expenditures and Other	195,144	(476,887)	(607,482)	5,620,548	1,588,992	539,052	159,109	1,108,247	8,126,723
Fund Balance/Net assets - July 1, 2006	1,929,515	1,939,572	2,844,893	(4,532,887)	60,839,730	987,251	511,895	-	64,519,969
Restatement	-	-	12,664	191,434	303,702	-	-	-	507,800
Residual Equity Transfer	-	-	-	-	-	-	-	-	-
Fund Balance/Net assets - June 30, 2007	2,124,659	1,462,685	2,250,075	1,279,095	62,732,424	1,526,303	671,004	1,108,247	73,154,492

Assumptions, Estimates, & Trends

Overview

Funding for services provided to City of Missoula residents comes from a variety of sources. The City strives to maintain a diversified and stable revenue system that will provide shelter from short-term fluctuations in any one revenue source and ensure the ability to provide ongoing services, within the confines of Montana Law. The City of Missoula is heavily reliant upon property tax levy for its General Fund, which is explained in greater detail on the following pages. The City will continue its policy of seeking alternative revenue sources to lower the tax burden for City services, charging users for specific services where feasible, and aggressively collecting all revenues due the city. Enterprise fund revenues are generated through direct fees for service.

City revenues are divided into nine basic categories: Taxes and Assessments; Licenses and Permits; Intergovernmental Revenue; Charges for Services; Fines and Forfeitures; Miscellaneous Revenue; Investment Earnings; Bond Proceeds and Other Financing Sources; and Inter-fund Transfers.

Taxes and Assessments: This revenue is derived from the levy of taxes on real property and personal tangible property. Examples of taxes are property taxes and local option motor vehicle taxes.

Licenses and Permits: Revenues derived from the issuance of local licenses and permits.

Intergovernmental Revenue: Revenues received from federal, state and other local government sources in the form of grants, shared revenues, and payments in lieu of taxes (PILT). State entitlement, grants, and PILT are examples of Intergovernmental Revenue.

Charges for Services: All revenues stemming from charges for current services—primarily revenues of Enterprise and Internal Service Funds. Examples of charges for services are the monthly/semi-annual sewer use charge, building permits, and engineering fees.

Fines and Forfeitures: Revenues received from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for neglect of official duty. Examples include: traffic fines, court fines, victim witness fines and bonds forfeited.

Miscellaneous Revenue: Revenue from sources not otherwise provided in other categories. Rent is an example of a miscellaneous revenue.

Investment Earnings: Revenue derived from the investment of available cash balances. Interest income is allocated proportionately to funds authorized by law to accrue interest, based on their respective cash balances.

Bond Proceeds and Other Financing Sources: These revenues consist of the debt proceeds received by the city to finance various types of capital improvements.

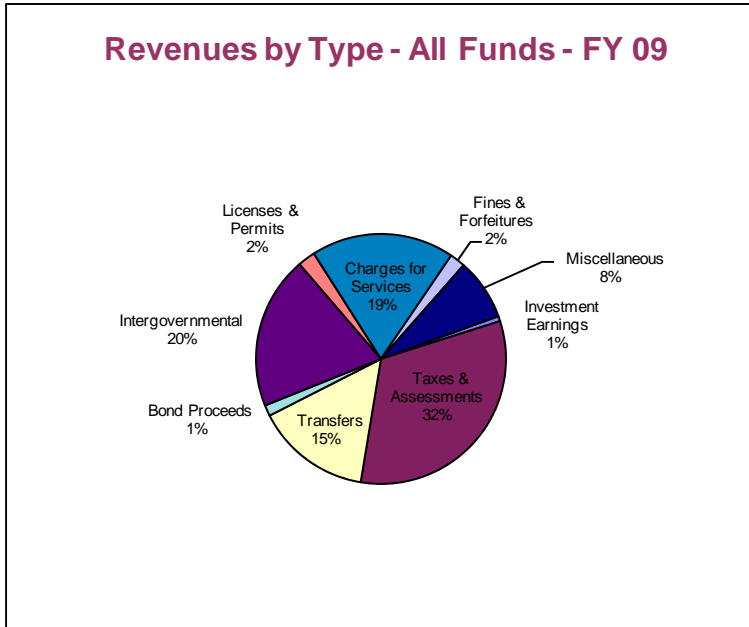
Interfund Transfers: Transfers between individual funds of a governmental unit that are not repayable and are not considered charges for goods or services. An example is matching funds transferred from the

MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

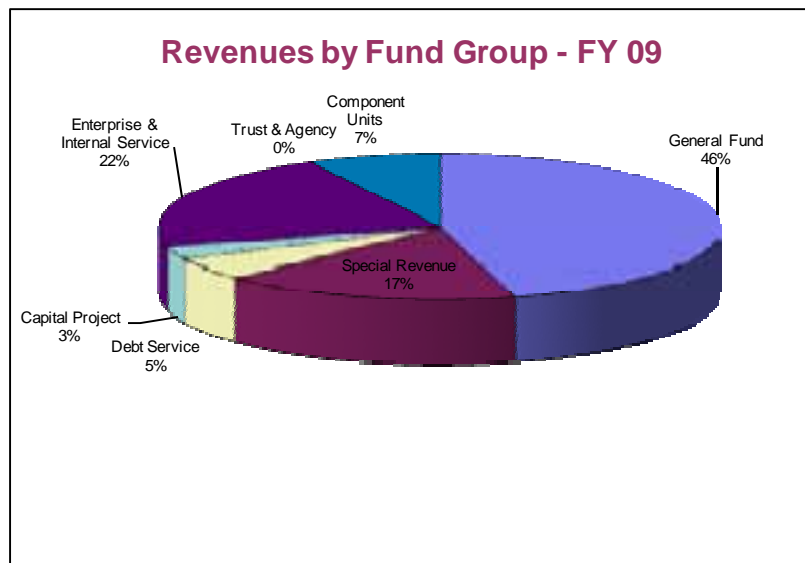
General Fund and other special revenue funds to the Capital Improvement Fund for the funding of capital projects.

The two pie charts below give a graphic overview of total city revenues—one by the sources previously described and the other by major fund group.



As depicted by the graph of revenues by type, the taxes and assessments category and transfers make up the two largest categories of city revenues for FY 09 (47%). Intergovernmental revenues make up the next largest category (20%). Finally, Charges for Services (19%) makes up the fourth largest category. These four revenue categories make up 86% of all city revenues.

Revenues by fund group also help give the reader a look at the “Big Picture” of city revenues. As shown by the graph on the right, the general fund (46%), Enterprise & Internal Service funds (22%), Special Revenue Funds (17%), and Component Units (7%), make up 92% of the city’s revenues.



Assumptions, Estimates, & Trends

Revenue Forecast Assumptions & Methodology

Forecasting as used in the budget refers to estimating future changes in revenues. It provides an estimate of how much revenue will be available and the resources required to meet current service levels and programs over the forecast period. The value of forecasts is in estimating whether, given assumptions about local financial policies and economic trends, the City will have sufficient resources to meet requirements of ongoing, planned, or mandated programs. Forecast models have the added value of providing a planning tool for capital projects and/or indicate when bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the City, as well as insight into tax, revenue, and service options the City Council must address. Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, revenue trends, and inflation. Specifically, for the revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on prior year patterns. In general, we seek to match revenue sources with the economic and/ or demographic variables that most directly affect year-to-year changes in those revenues.

Methods to project the revenues suggested in the budget vary depending upon the type of revenue examined. However, the most common method used is **Trend Analysis** and especially a year-to date approach. Examination of a variety of revenue sources on a monthly basis, have revealed consistent patterns in monthly collections. Trends are identified, along with an analysis of whether or not the trend is likely to continue. These have been good indicators of revenue collections during the course of a year and help to set a basis for future projections. Forecast variances are analyzed and used to improve forecasting in future periods. **Expert Judgment** is a projection methodology that relies upon individual department directors and financial managers to make projections for the revenues that affect their operations.

Revenue Estimates

The National Advisory Council on State and Local Budgeting prepared a set of recommended practices relating to governmental revenue estimates. Stated below are some excerpts from their recommended practices, along with the City of Missoula's revenue estimate practices.

Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisition. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances our understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.

One of the key analytical tools, to assist in the development of revenue estimates, is the comprehensive five year financial forecast. This forecast considered key revenue and expenditure projection factors such as population, increases in the consumer price index (CPI) and other growth factors. The trending of these key factors and their affect on revenues and expenditures for the past ten years provided a historical basis for the five year financial forecast. The first City of Missoula forecast was prepared in 2003, and will be updated during November of 2007 and again in June and September of 2008.

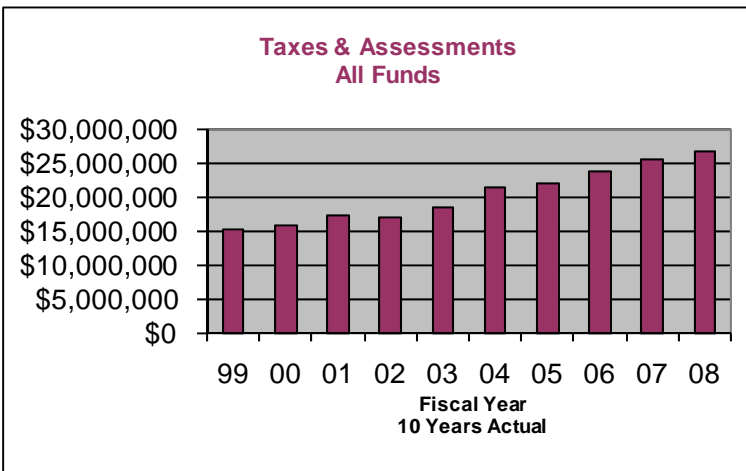
MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

Overall, the City's practice is to budget revenues conservatively and to use as much information as possible to enhance the accuracy of revenue estimates. By identifying and utilizing as many revenue-related variables as possible in forecasting, we hope to minimize the risks of overstating or understating revenues that could arise from using only a few variables. Our approach to forecasting, in general, is to apply a conservative philosophy that will produce our long-term goal of not overstating revenues. Most estimates involve two projections: an estimate for the amount to be collected in current year based on year-to-date activity; and an estimate for the increase or decrease in receipts anticipated for a future budget year. As part of the mid-year budget review process, the revenue assumptions included in the forecast are comprehensively reexamined based on actual results for 2007-08 as well as emerging trends at the mid-point of the year.

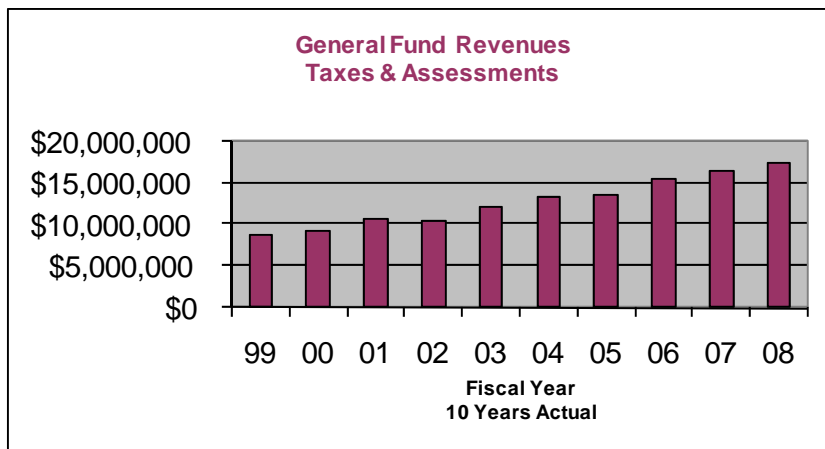
Individual revenue categories, their trends, and estimates follow. The revenue estimates described below represent **91%** of total City revenues.

Key Revenue Estimates & Trends



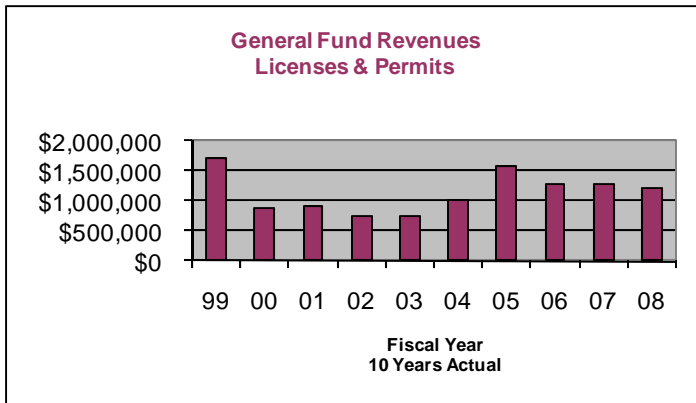
Shown by the graph on the left are Taxes and Assessments for all City funds, over a 10-year period (10 years actual from FY 1999- FY 2008). The graph reflects the steady and rapid growth the City of Missoula is experiencing. Property taxes, which comprise the majority of this revenue category, are dependent upon a combination of taxable values and mill levies. A modest increase is budgeted for the budget year FY 2009.

The graph on the right shows actual General Fund Taxes & Assessments for the last 10 years. There was very little growth in General Fund taxes from FY 1999 – FY 2000 due to the slow economy and the lack of annexations. As the economy accelerated so did the number of annexations in the last six years.



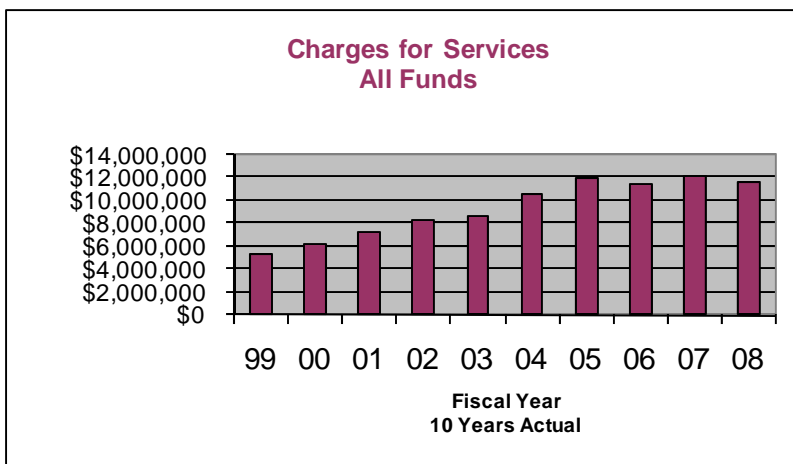
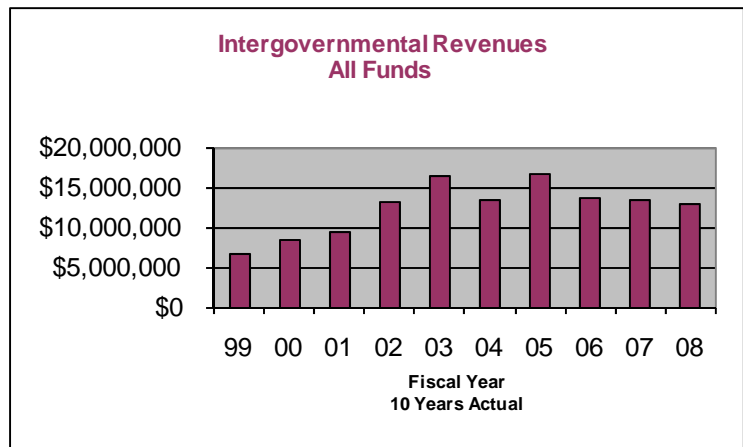
MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends



Licenses & Permits for all City funds are shown on the left. The decline from FY 00 to FY 02 reflects the state Legislature's elimination of several revenue sources (categorized as Licenses & Permits) which the Legislature has replaced with entitlement revenues. The most significant of these would be the transfer of Motor Vehicle Revenues collected by the County on behalf of the City to the state.

The increase in intergovernmental revenues (especially from 01 through 03) reflect the State Legislature's distribution of entitlement revenues to city governments. Since the peak in FY 03, these revenues have remained relatively stable although the level of grant receipts does fluctuate from year to year. In addition to the entitlement revenues, this category also includes grants, and state reimbursement for services provided by the city.



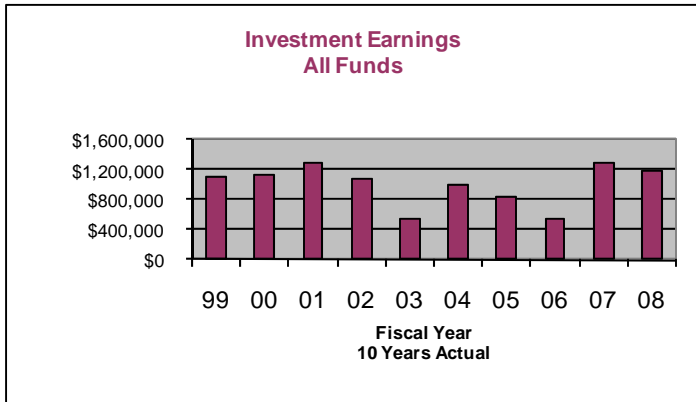
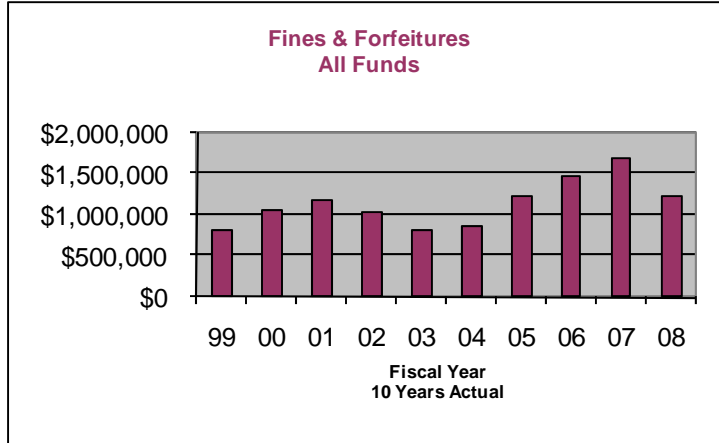
Charges for services, for all funds, represent 19% of total city revenues. This category is dominated by revenues in the City's enterprise funds, which include the Sewer charges and City Health Plan premiums. Many of these revenues are growth related. These include engineering fees, zoning fees, subdivision fees, building permits, impact fees and similar revenues. This source is anticipated to

be maintained at the FY 07 level or greater for the foreseeable future.

MAJOR REVENUE SOURCES

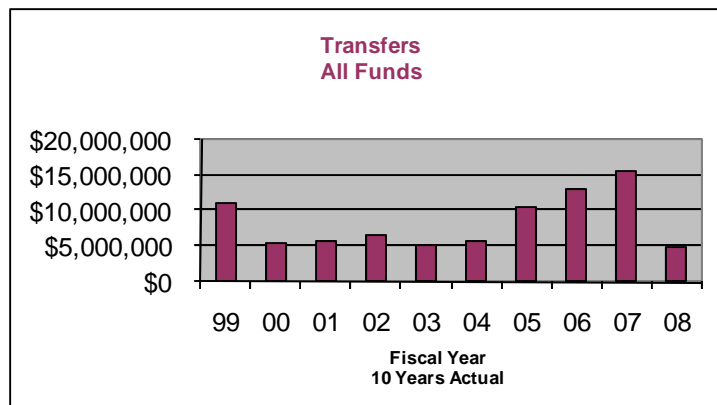
Assumptions, Estimates, & Trends

Fines and forfeitures, within the General Fund, to a large extent, reflect the growth in the City of Missoula. As shown by the graph, fines and forfeitures have increased from \$798,000 to \$1,686,000 over this ten year period. The decrease that occurred from FY 2001 – FY 2004 was mainly due to legislative changes by the Montana legislature that preempted the collection of City Fines. The decrease in FY 08 was the result of staffing shortages in Police due to officers being called up to active duty in the armed forces. This revenue stream is dependent on being fully staffed in the Police department.



Investment earnings reflect a combination of available cash balances together with the interest rate the city is able to obtain. As shown by the graph, investment earnings have been quite volatile, with sharp declines occurring in FY 03, which correspond to the decline in interest rates nationally. Interest earnings in FY 09 are expected to be just under \$600,000 due to declining interest rates.

Transfers that occur between various City funds will fluctuate significantly from year to year, as can be seen from the following graph.



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